IOWA UTILITIES BOARD
Energy and Policy Sections

Docket Nos.:	SPU-2005-0015 (RPU-2014-0001 and TF-2014-0033)
Utility:	Interstate Power and Light Company
Memo Date:	September 5, 2014

TO: The Board

FROM: Dan Fritz – Team Lead, Venkata Bujimalla, Gary Stump

SUBJECT: Decision Memo on Proposed Settlement

On March 25, 2014, Interstate Power and Light Company (IPL), the Consumer Advocate Division of the Department of Justice (Consumer Advocate), the Iowa Consumers Coalition (ICC), and the Large Energy Group (LEG) filed a unanimous settlement agreement and joint motion for approval of agreement in Docket No SPU-2005-0015. The proposed unanimous settlement resolves the potential double recovery of Duane Arnold Energy Center (DAEC) PPA costs raised in that docket.

In addition, IPL filed a proposed tariff, identified as TF-2014-0033 that contains a new rider and changes to IPL's EAC that would implement the customer credits agreed to in the proposed settlement. The tariff changes provide that there would be no change in IPL's electric base rates.

On April 2, 2014, the Iowa Utilities Board (Board) issued an order docketing the tariff for investigation, requiring additional information, cancelling consumer comment hearings, and allowing optional implementation of customer credits.

On April 9, 2014, IPL filed the additional information requested by the Board. On the same date, ICC provided information in response to additional information request number 5, which dealt with the credit to standby customers contained in the proposed settlement.

On April 22, 2014, IPL filed a response to the Board's April 2, 2014, order stating that it had conferred with all parties to the settlement and agreement was reached that IPL could begin implementation of the customer credits with the May billing cycle, beginning on or about April 28, 2014. The order provided for a true-up filing to address any subsequent modifications to the Base Rate Freeze Extension Rider (BRFER) credit factors after the Board completes its review of the settlement agreement.

On May 19, 2014, the Board issued an order seeking additional information. On May 29, 2014, IPL submitted its responses to the Board's May 19, 2014, order.

On July 28, 2014, the Board issued another order seeking information to fill in some gaps or provide further detail with respect to the information provided on May 29, 2014. On August 8, 2014, IPL submitted its responses to the Board's July 28, 2014, order.

Summary of IPL's May 29, 2014, Responses

Question No. 1: Provide details to reconcile the annual depreciation and amortization expense numbers given on the cost of service schedules (source shown in column A of the following table) to the adjustment in accumulated provision for depreciation and amortization shown on the rate base schedules (source shown in column B) for each of these years.

Year	Column A	Column B
2012	Confidential Attachment 1 (AGW), page 6, line 4	Confidential Attachment 1 (AGW), page 53, line 2
2013	Confidential Attachment 1 (AGW), page 111, line 4	Confidential Attachment 1 (AGW), page 128, line 2
2014	Confidential Attachment 1 (AGW), page 373, line 4	Confidential Attachment 1 (AGW), page 378, line 2
2015	Confidential Attachment 1 (AGW), page 389, line 4	Confidential Attachment 1 (AGW), page 394, line 2

In response to this question seeking reconciliation of book depreciation expense on the cost of service calculation schedules with the accumulated depreciation balance on the rate base calculation schedules, IPL explained that the variance is due to the following two reasons:

a. Accounting treatment of retirements amounting to $[redacted] million during 2013-2016.
b. A variance of [redacted] because of the use of different composite depreciation rates in the two models – one used for calculation of depreciation expense for the cost of service and the other used for calculation of accumulated depreciation for rate base.

In response to (a), IPL explained that it accounted for the net book value of its anticipated retirements in the accumulated depreciation account (108 account), pursuant to the Federal Energy Regulatory Commission's Uniform System of Accounts (USOA). In response to (b), IPL explained that the composite rate used in the cost of service calculations reflected only specific additions to the plant, whereas the composite rate used in the calculation of accumulated depreciation is the rate covering a larger pool of assets. IPL also said that it is "confident that the revenue requirement numbers that were provided are directionally reasonable for this high level revenue requirement forecast." Staff understands this to mean that IPL believes the projections are in the right direction; it is not clear how reliable IPL considers the projections to be.

Question No. 2: Reflecting the reconciliation in Question 1, provide a 13-month average rate base for each of those years.

In response to this question asking for updated rate base numbers, IPL said it believes that the rate base numbers provided earlier are still reasonable, as discussed in response to Question No. 1 above; therefore IPL did not undertake any further reconciliation.

Question No. 3: Regarding the rate base numbers provided in Confidential Attachment 1 (AGW), page 394, provide a list of the assumptions related to plant retirements, depreciation study depreciable life changes, or any other significant changes that impact rate base.

In response to this question asking for details on projected retirements, IPL provided a list of retirements and said that there are no assumed changes for the depreciable lives of the plant.

Question No. 4: Provide the annual return on equity (ROE) for 2014 before making the changes in Table 1 of Amy Wheatley's testimony.

In response to this question, IPL forecasted a return on equity of [redacted] for 2014. This ROE calculation includes a 13-month average rate base, which reflects planned capital expenditures through December 2014 and the $70 million credits to customers for 2014, but excludes any pro-forma adjustments for elimination of the DAEC purchase power capacity costs that are incurred during the year.

Question No. 5: Provide the ROE impact of each item listed in Table 1 of Amy Wheatley's testimony.

Table 1 of Amy Wheatley's testimony is provided as Attachment 1. In response to this question, IPL did not provide ROE impacts for each item. IPL said that the revenue requirement associated with line items 2 through 5 of Amy Wheatley's table alone is nearly enough to offset the purchase power capacity costs currently embedded in base rates. Line item 6 shows the projected impact of increases in sales which would result in a reduction to revenue requirement. IPL stated that there is no ROE impact for the items listed on lines 6 through 12 because they were not included in the revenue requirement forecast.

Summary of IPL's August 8, 2014, Responses

Question No. 1: With respect to the variance associated with the two different depreciation models, explain which of the two IPL relies upon to provide justification for credit reductions in the amount of $45 million in 2015 and an additional $15 million in 2016. If both were used to support the reduction in credit amounts, explain the basis for using inconsistent numbers and also provide the revenue requirement difference and associated revenue credit difference that would result from using the same depreciation model in both the cost of service calculations and rate base.

In response to this question, IPL submitted that it did not rely on either of the depreciation models to justify credit reductions. IPL stated that as it expects to spend significant amounts of capital through 2016, the increased rate base justifies the credit reductions. IPL provided information in Table 1 to reconcile the credit reductions.

[redacted]

Question No. 2: With respect to forecasted retirement adjustments, confirm that IPL made identical adjustments to both forecasted gross plant and forecasted accumulated depreciation.

IPL responded saying that it made identical adjustments to both forecasted gross plant and forecasted accumulated depreciation.

Question No. 3: With respect to IPL's response to Question No. 2 provided on April 9, 2014, explain why IPL did not consider the impact of projected plant retirements on the forecasted revenues from fuel riders or the costs of power purchases. Quantify the projected impacts.

IPL stated that it viewed a rate case to be a review of base rates and as fuel costs are handled through a separate regulatory recovery mechanism, they were excluded from the direct base rate case analysis. IPL also stated that the amount of retirements it referred to included a number of other plant categories, such as generic plant, software etc. IPL also stated that [redacted]

Question No. 4: In its response to Question No. 5 provided on May 29, 2014, IPL indicates that the projected revenue requirement associated with line items 2 through 5 alone is nearly enough to offset the purchase capacity costs. Provide the impact of each of the line items 2 through 5 on IPL's projected return on equity.

IPL stated that its previous response provided on May 29, 2014, reflects the projected revenue requirement impacts of all of the changes to rate base for environmental projects, generation performance upgrade projects, other capital expenditures above depreciation, and changes in Accumulated Deferred Income Taxes since IPL's 2010 rate case. IPL also stated that the revenue requirement associated with these rate base items alone nearly offsets the purchased power capacity costs currently embedded in base rates. IPL submitted the information in table 2 with regard to ROE impact of items 2 through 5. IPL also reiterated that the forecasted ROE for calendar year 2014 is below the currently authorized return on equity as discussed in its May 29 response.

[redacted]

<u>Staff Analysis</u>

On April 29, 2014, Board staff provided the Board with a gold memo addressing various aspects of the settlement. Staff calls attention to that memo because its contents are not repeated here.

1. Amount of Credits

Staff found an apparent inconsistency in depreciation numbers provided by IPL. IPL explained that the inconsistency is due to the use of two different models used in depreciation calculations, one for accumulated depreciation in the rate base calculation and the other for depreciation expense in the cost of service calculation. IPL also stated that it did not use either of these models in arriving at the agreed to settlement credits. With regard to the credits of $25 million in 2015 and $10 million in 2016, IPL has provided an annual list of capital projects to demonstrate the need for increased revenue requirements over time. Staff finds that this high-level annual revenue requirement information provides satisfactory justification for reduced credits in 2015 and 2016.[1]

In response to the Board's question in its order dated April 2, 2014, and a request for clarification in its order dated July 28, 2014, IPL stated that the generating plants that have been projected to be retired did not generate significant amounts of energy in 2013. Based on the energy generation of 78,000 MWh, staff estimates that retirement of the plant could result in an increased purchase power costs of $3.1 million based on an estimated rate of $45/MWh and after netting the fuel costs of generating electricity from its own plant, the net impact on customers could be lower.

2. ROE Considerations

The Board's currently allowed ROE for IPL is 10 percent. The settlement agreement gives the parties an option to initiate a show cause proceeding if IPL earns an ROE in excess of 11 percent. The settlement agreement does not identify any specific positive activities that IPL could use to achieve an ROE higher than the currently allowed ROE. It is possible that IPL could manage its operations and earn more than the currently allowed ROE by a number of means. Examples include reducing uneconomic off-system purchases, efficient operation of its plants, cost savings in procurements, reducing depreciation expenses, postponing some operating and maintenance activities, and similar cost-cutting activities. While some activities, such as reducing uneconomic off-system purchases, efficient operation of its plants, cost savings in procurements, and reducing operating and maintenance expenses might be positive to ratepayers in the long run, activities such as reducing current depreciation expense (resulting in higher rate base in the future), postponing required maintenance of plant, or making more uneconomic off-system purchases (costs for which are recovered by pass-through riders) may not be in the best interests of current or future ratepayers.

Staff believes it would be prudent to establish a reporting mechanism to provide transparency regarding these decisions. Specifically, IPL would be required to file annual reports with the Board providing data on its earned ROE for each year of the

[1] In the list provided for 2015, staff finds that IPL projects a revenue requirement of [redacted] Staff believes that in a rate settlement of this nature, the revenue requirement inconsistency does not materially impact the final outcome.

settlement and identifying any specific significant year-over-year revenue or cost variances that have contributed to variance from the prior year's ROE. The reports should include detailed explanations of the reasons for each identified variation.

Recommendation

Staff has completed its review of the proposed settlement in Docket No. SPU-2005-0015. Staff believes the proposed settlement is reasonable in light of the whole record, consistent with law, and in the public interest and recommends that the Board approve it. Staff also recommends that IPL be required to file annual reports showing its earned return on equity and identifying specific significant year-over-year revenue or cost variances that have contributed to the variance in return on equity.

RECOMMENDATION APPROVED

IOWA UTILITIES BOARD

9-10-14 */s/ Elizabeth S. Jacobs*
Date

/df

9/11/14 */s/ Nick Wagner*
Date

9/11/2014 */s/ Sheila K. Tipton*
Date

ATTACHMENT 1

[redacted]